Company registration no 10436460

STATE BANK OF INDIA (UK) LIMITED

REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

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FOR THE YEAR ENDED 31 MARCH 2019

COMPANY INFORMATION

Registered office
15 King Street
London
United Kingdom
EC2V 8EA

Company registration no 10436460

Directors
Chalasani, Venkat Nageswar (Chairman & Non-Executive Director)
Baines, John Duncan (Independent Non-Executive Director)
Hicks, Steven Mark (Independent Non-Executive Director)
Naik, Sanjay Dattatraya (Non-Executive Director)
Chandak, Sharad Satyanarayan (Chief Executive Officer)
Avasia, Kalpesh Krishnakant (Executive Director & COO)

Bankers
State Bank of India, 15 King Street, London EC2V 8EA
National Westminster Bank, 135 Bishopsgate, London EC2M 3UR

Auditors
Mazars LLP
Tower Bridge House
St Katharine's Way
London E1W 1DD

STRATEGIC REPORT

The directors present their strategic report of State Bank of India (UK) Limited ('SBIUK' or 'the Bank') for the first full trading year ended 31 March 2019.

SBIUK is a wholly owned subsidiary of State Bank of India (SBI), a Bank established in law by the State Bank of India Act 1955. SBI is the largest bank in India and is authorised and regulated by the Reserve Bank of India.

SBIUK is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA. The Bank obtained approval for authorisation by PRA on 22 August 2017 and commenced trading on the 1 April 2018.

STRATEGIC OBJECTIVE

SBIUK's objective is to provide multi-channel retail banking services in the UK via its branch network and digital channels. The primary target customer group for the Bank are individuals and business entities in the UK. However, with a view to diversifying its loan portfolio, the Bank would look at lending and investment opportunities in other geographic regions including Europe and North America.

SBIUK's medium term goals are to be a profitable and sustainable UK bank, and position itself as a niche bank by offering state of the art technology-based products and services in the retail segment.

BUSINESS MODEL

The Bank provides the following products and services through its network of branches across the UK:

- Current, instant access savings, cash ISAs and fixed deposit accounts for individuals
- Current, business savings and fixed deposit accounts for businesses
- Residential Buy To Let (BTL) mortgages, which are also distributed via intermediary channels
- Owner occupied commercial and commercial investment mortgages
- Credit facilities to UK-based businesses in the hotel, health care, student accommodation, industry and other sectors of the economy
- USD and Euro denominated loans to businesses in other geographic regions including Europe and North America
- 24 x 7 remittance services to India
- Safety deposit lockers

The Bank also offers online banking facilities as well as banking on the mobile app. The Bank plans to expand the digital offerings in the next year and is in the process of thoroughly revamping and upgrading its mobile banking and internet banking applications to make it more user friendly by adding a number of functionalities including account opening and remittances by non customers.

The lending is mainly funded by customer deposits comprising of current accounts, instant access accounts and term deposits. The deposit book is carefully managed to meet the growth and the maturity profile of the loan book.

The Board sets the strategy, risk appetite and culture for the business that is supported by effective risk management, regulatory compliance and governance to support and grow the business model.

FINANCIAL AND BUSINESS REVIEW

The Bank commenced trading on 1st April 2018, with Tier 1 share capital of £175m and Tier 2 capital of £50m, entirely contributed by SBI. Deposits of £1,366m, loans of £1,074m and corporate bonds (including high quality liquid assets) of £300m were acquired from SBI's London branch operations through a Part VII transfer.

All 12 retail branches of SBI operating in the UK were also transferred to SBIUK on 1st April 2018. At the same time, the risk management, compliance, information technology, human resources, finance and internal audit functions of SBI's operations continue to cater to SBIUK as well as the London branch of SBI, which is now a wholesale bank branch.

Economic Environment

The gradual rise in US interest rates in addition to increased threats of trade barriers increased the global political and economic risks during the year. This gave rise to a contagion effect globally resulting in subdued growth levels. Sterling depreciated against the USD over the Brexit uncertainty. The Bank of England also increased the interest rate by 0.25% to 0.75% in August 2018 to counter inflationary pressures.

Review of Operations

Against the above backdrop, the key financial and other performance indicators of SBIUK for the first trading year ending 31st March 2019 were encouraging as follows:

	£ Millions
Gross loans and advances to customers	1,046.3
Of which:	
Buy to let mortgages	140.2
Commercial mortgages	261.4
Corporate loans	642.6
Cash and balances with banks	19.5
Investments Securities	345.3
Deposits from customers	1,310.3
Profit before tax	9.8
Profit after tax	7.8
Net interest margin	1.6%
Cost / Income ratio	57%
Common Equity Tier 1 ratio	13.7%
Total capital adequacy ratio	17.5%
Non Performing Assets	0%
Leverage ratio	11.3%
Number of branches	12

As this is the Bank's first year of operations, there are no trading comparatives. The Bank has established a good foundation in its first year of operations with the profit levels higher than plan in addition to the implementation of the corporate governance framework and development of sound systems and controls. These will help the Bank to achieve its objectives of steady and sustainable growth and profitability.

During the year, a tranche of £105m of secured loans matured and approximately £242m of syndicated loans were prepaid. Despite this, the loans and advances to customers reduced only by £28m, due to focus on BTL originations and new corporate loans.

Profitability
The Bank's operating profit for the year amounted to £11.6m. The pre-tax profit for the year after allowance for impairment losses on loans came to £9.8m and the profit after tax amounted to £7.8m.

Capital resources
The Bank's total capital resources amounted to £234.9m as at 31st March 2019 (2018: £225.3m) with a common Tier 1 capital ratio of 13.5% and total capital adequacy ratio of 17.4%.

Liquidity resources
The Bank holds high quality liquid assets (HQLA) to meet liquidity shortfalls arising during periods of market stress, idiosyncratic stress or a combination of the two. The Bank's Liquidity Coverage Ratio (LCR) was maintained well above the minimum regulatory requirement of 100% throughout the year. The Bank also had Net Stable Funding Ratio of 123%, compared to minimum regulatory expectations of 100%.

Financial risk
The Bank is exposed to a variety of financial risks that arise in the course of its business. These risks include compliance risk, capital risk, credit risk, market risk, liquidity risk and operational risk. The Bank has in place a detailed risk management framework that is designed to limit the adverse effects of these risks on the financial performance of the Bank. The principle risks and uncertainties facing the business are detailed in the risk management report.

Brexit
The UK's intended exit date from the European Union (EU) was due to be finalised on 29 March 2019 and has now been delayed until at least 31 October 2019. The delay is resulting in economic uncertainty and having a knock-on effect on the economy, particularly on the housing market and business investments.

Until the outcome of Brexit is clearer, including the nature of the future trading relationship between the UK and the EU, uncertainty in the economic environment is expected to continue. Nevertheless, a hard Brexit outcome could have a negative impact on the UK economy and mortgages market in the short and medium term, which may impact the Bank's growth plans and affect asset quality if property prices fall significantly. The Bank has therefore adopted a conservative risk appetite for BTL and commercial mortgages, to minimise such risks. Moreover, as part of the Bank's stress testing program, scenarios of falling property prices have been factored in to assess the resilience to such market movements. As part of the stress testing, the Bank has also identified various management actions, which would ensure that the Bank has adequate liquidity and capital resources.

Human resources
The Bank's greatest strength is the dedication of its staff in delivering outstanding service to its customers. The Bank would like to express its sincere appreciation to all the staff for their contribution and dedication towards delivering the Bank's objectives during the year.

The Bank is investing in Leadership & Management programs for the middle and senior management team, a number of online training courses for all its employees on improving the staff performance and objective setting process, and culture awareness programs.

Future Outlook

Following the decision by the Bank of England to withdraw from providing easy liquidity to the banking sector, the competition for deposits has increased, leading to higher funding costs. At the same time, the slowdown in the housing market due to uncertainty over UK's exit from the European Union, along with increased competition especially in the regulated mortgage lending space has led to margin compression in this area of lending. As SBIUK focusses its lending activities on specialist BTL mortgages and commercial mortgages, it is well placed to sustain its margins, though risks of margin compression remain.

The Bank will drive its growth and profitability by expanding its customer base by niche product offering, investment in technology to enhance customer experience, improving operational efficiency and effective risk management.

The Bank's governance and risk management policies are detailed in the corporate governance report and the risk management report respectively.

Further information concerning the Banks approach to risk management and its capital adequacy will be contained in the unaudited disclosures made under the requirements of Pillar 3 and Capital Requirements Directive IV (CRD IV). These disclosures will be published on the Banks website at www.sbiuk.com.

Chandak, Sharad Satyanarayan
CEO & Executive Director

DIRECTORS' REPORT

The directors present their annual report, together with the financial statements and auditor's report for the year ended 31 March 2019.

Dividends

The Directors do not recommend the payment of a dividend. (2018: NIL)

Going Concern

The Bank's business activities, together with the factors likely to affect its future development and position are set out in the strategic report. The directors believe that the Bank has adequate resources to continue operations for the foreseeable future. Thus, they have adopted the going concern basis of accounting in preparing the annual financial statements.

The Board regularly engages in the forward planning of the business to ensure the Bank meets its liquidity and capital levels as defined in the corporate strategy and annual plan. Board members also consider the liquidity and capital requirements in further detail within the capital and liquidity adequacy assessments; these include the results of testing both requirements under significant stress scenarios.

In particular, market wide stress from economic uncertainties (including Brexit) has been tested as part of the ICAAP and ILAAP scenario modelling and the Bank is well placed to deal with such circumstances. As a result of these considerations the Directors are satisfied that the Bank has adequate resources to continue in business for the foreseeable future. For this reason, the financial statements have been prepared on a going concern basis.

Directors

The Directors of the Bank, who served during the period and to the date of this report, were as follows:

Chalasani, Venkat Nageswar (Appointed 1 Feb 2019)
Baines, John Duncan
Hicks, Steven Mark
Naik, Sanjay Dattatraya
Sengupta, Siddhartha (Resigned 31 January 2019)
Chadha, Sanjiv (Resigned 1 February 2019)
Chandak, Sharad Satyanarayan (Appointed 2 Feb 2019)
Avasia, Kalpesh Krishnakant (Appointed 23 May 2018)

Directors' shareholdings

No director has any beneficial interest in the shares of the Bank.

Directors' indemnification

The Bank has arranged qualifying third party indemnity insurance for all of its directors.

Charitable donations and political contributions

No donations or political donations were made in the period.

Social, environmental and ethical risks

Social, environmental and ethical risks are managed at the group level. More information on how these risks are managed can be obtained from the financial statements of State Bank of India which are available on www.sbi.co.in.

Financial instruments

Financial risk management objectives and policies of the Bank are included in note 6.0.

Requirements included in the Strategic Report and Risk Management Report

As permitted by Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 certain matters which are required to be disclosed in the Directors' Report have been omitted as they are included in the Strategic Report and Risk Management Report. These matters relate to financial risk management objectives and policies and exposure to risks.

Post Statement of Financial Position events

There have been no significant events after the date of the Statement of Financial Position.

Disclosure of information to auditors

- As far as the directors are aware, there is no relevant audit information of which the Bank's auditors are unaware; and
- The directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Bank's auditors are aware of that information.

Independent auditors

Mazars LLP has been appointed external auditors of the Bank via a resolution approved at the Board meeting on 17 May 2018. Mazars LLP has expressed its willingness to continue in office and the Directors made the decision to reappoint Mazars LLP as external auditors.

Signed on behalf of the board

Chandak, Sharad Satyanarayan
Chief Executive Officer
15 July 2019
15 King Street, London
United Kingdom EC2V 8EA

CORPORATE GOVERNANCE REPORT

The Board of Directors

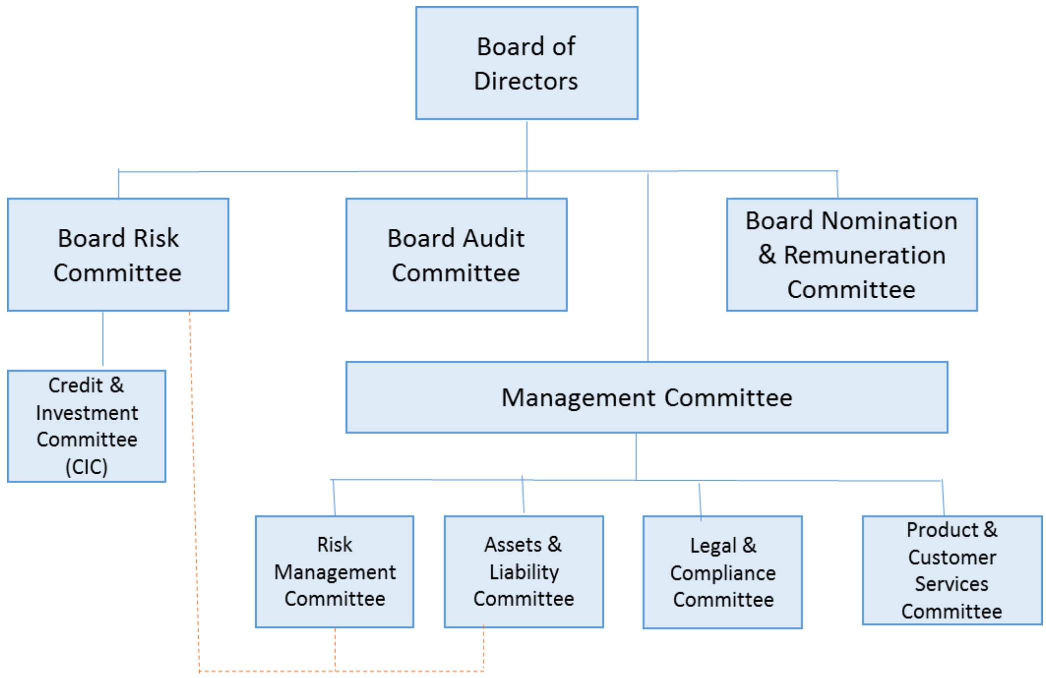
SBIUK has a Board of Directors in place to oversee its governance. The Board consists of six members, of whom two are executive directors, two are UK-based independent non-executive directors and two are non-executive directors including the non-executive Chairman, nominated by the parent, State Bank of India.

The Board of Directors meet quarterly, or as and when required during the year. The objective of the Board is to enhance the long term success of the Bank by developing a sustainable business model. This is supported by approving and setting strategy, risk appetite and culture in line with the business model and in light of changing business opportunities, environment and risks.

The Board delegates the day to day implementation of the strategy and risk appetite within the approved policy statements to the Management Committee ('ManCo') and it is the responsibility of the Board to monitor the overall performance of the business.

Board Sub-Committees

The structure of the Sub-Committees of the Board (along with the Management Committee) is set out below.



Board Audit Committee

The Board Audit Committee is chaired by Mr John Baines, an independent non-executive director. The Committee's role is to assess and approve the internal audit charter, ensure a close relationship with external auditors, review the financial statements and monitor the risk based internal audit process.

The Committee assesses the internal and external audit findings and ensures implementation of the recommendations made. The Committee meets quarterly or as and when required during the year.

Board Risk Committee

The Committee is chaired by Mr Stephen Hicks, an independent non-executive director. The Committee's role is to assist the Board to manage the risks faced by SBIUK and to review the effectiveness of the risk management and compliance framework of the Bank. It also oversees the development of a comprehensive risk management strategy and framework and implementation of the Bank's risk appetite as set out by the Board.

In addition, the committee also oversees the effectiveness of the compliance function. The Committee meets quarterly at a minimum or as and when required during the year. The Board Risk Committee delegates decisions of transactional nature in the areas of loans and investments to Credit and Investment Committee (CIC). In addition to making credit and investment decisions as per the policy parameters, CIC also monitors and ensures compliance with key credit and investment policies.

Board Nomination & Remuneration Committee

The Nomination & Remuneration Committee's role is to determine the policy for the remuneration of the executive directors and the senior management of the Bank, nominate candidates for appointment to the Board and ensure the Bank's remuneration system motivates staff for both long and short term performance.

Management Committee

The Management Committee (ManCo) is chaired by the Chief Executive Officer (CEO) and includes the executive directors of SBIUK, the Chief Financial Officer (CFO), Chief Risk Officer (CRO), Head (Legal & Compliance), Chief Operations Officer (COO) and other senior managers of the Bank. The ManCo is the primary executive committee of the Bank and as such holds responsibility for the day-to-day management of the Bank, reporting directly to the Board of Directors. ManCo delegates its authority to a number of sub-committees detailed below:

- **Risk Management Committee**
  The objective of the committee is to assist the Management Committee to review and monitor the implementation of risk management framework in the Bank. The Risk Management Committee escalates any major issues to the Board Risk Committee through the CRO.

- **Assets and Liabilities Committee**
  The objective of the committee is to assist the Management Committee to review and monitor the capital, liquidity, market risk, product pricing and funding parameters of the Bank. The ALCO reports forthcoming priorities to the ManCo and escalates any major issues to the Board Risk Committee through the CFO.

- **Legal and Compliance Committee**
  The objective of the committee is to assist the Management Committee to review and monitor the legal and compliance arrangements of the Bank. The Legal & Compliance Committee reports forthcoming priorities and major issues to the ManCo.

- **Product & Customer Services Committee**
  The objective of the committee is to assist the Management Committee to review and monitor new product implementation as well as modification and review of the Bank's existing liability and asset products and the quality of customer service levels in the Bank.

RISK MANAGEMENT REPORT

The management of risk is applicable across all areas of SBIUK's business. The Risk Management Framework (RMF) supports the business activities within the Board's approved Risk Appetite Statement. The purpose of the RMF is to provide a clear organisational structure with defined lines of responsibility under which risk is identified, managed and reported.

Risk Management Framework

SBIUK operates three lines of defence Risk Management Framework, reflecting the governance arrangements.

Overview of Three Lines of Defence

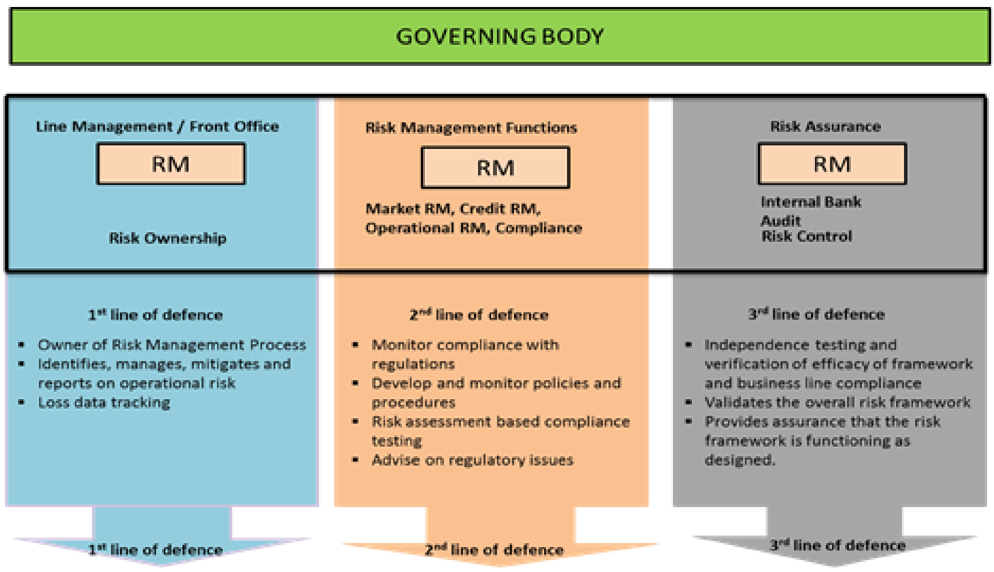
The role of SBIUK's Risk Management Framework is to serve as a mechanism through which the Board is able to implement and monitor adherence to SBIUK's risk appetite.

The Risk Management Framework utilises the 'Three Lines of Defence' (TLOD) model which is supported by a range of policies and procedures as well as functional charters and / or 'job descriptions' defining the roles of the individual functions as well as inter-functional responsibility boundaries.

Furthermore, to ensure it functions adequately, SBIUK ensures that it aligns other key aspects of the enterprise wide framework such as establishing ownership and a framework for managing risks within the front line businesses themselves. In particular, SBIUK's TLOD distinguishes between three stakeholder groups involved in effective risk management – those that:

- Own and manage risks;
- Oversee risks; and
- Provide independent assurance.

Three Lines of defence model



The first line of defence

The purpose of the first line of defence ("1LOD") is to own and manage the risks of the business. Within SBIUK, the first line functions are the retail branches, credit operations, and investment operations. These operations are servicing clients both online and through the physical branch network, and from a non-client perspective via balance sheet management.

For SBIUK, managers and the owners of business processes are the first line of defence and are adequately skilled to identify and assess risks. The risk profile is reviewed, updated and modified for changes to the business environment and emerging risks.

The first line of defence interacts with the CRO, who is responsible for oversight and challenge of the first line. The CRO ensures the alignment of the Bank's strategy with risk management activity. The business functions also seek to develop and implement policies, guidance and procedures necessary to manage risks arising. Internal procedures and standards, including the Compliance Manual, are developed with support from the second line of defence to reflect the UK's regulatory environment and other relevant rules. SBIUK considers the following to be the 1LOD responsibilities:

- Identifying, assessing and reporting the status of known risks and emerging risks arising in a business or function;
- Where applicable, mitigating or hedging risks in accordance with SBIUK's risk management and compliance framework;
- Ensuring policies and procedures that form the risk management and compliance framework are adequately implemented;
- Ensuring the effectiveness of risk management and risk outcomes within each business or function;
- Allocate appropriate resources to execute its front line risk management activities; and
- Monitoring risk events and losses, identifying issues and implementing remedial actions to address these issues.

The second line of defence

The second line of defence ("2LOD"), which comprises risk and compliance, are pivotal to the effective functioning of the risk framework in their role of defining the risk and compliance frameworks (e.g. setting policies and limits in line with the Board approved risk appetite) within which the first line must operate (and define their individual operational procedures).

The Risk Management Committee assess the second line of defence and regularly reviews the risk framework to ensure that it is sufficiently robust to protect SBIUK from internal as well as external risks. The framework lays out clear guidelines on critical enterprise-wide issues including market, credit, liquidity, operational and reputational risk.

Risk Management function

SBIUK's Risk management function is headed by the Chief Risk Officer, who reports to the Chair of the Board Risk Committee. The Risk Department in SBIUK ensures that risk parameters & guidelines are appropriate and regularly reviews the risk framework to confirm that it is robust enough to protect the entity from internal and external risks.

The responsibilities of the risk management aspect of the second line of defence include:

- Advising on best risk management framework and facilitating its implementation by the first line of defence;

- Ensuring risk management tools and controls are properly designed and implemented;
- Challenging the actions and decisions of the first line and helping the first line in considering risk when managing key decisions;
- Developing and delivering risk education and training across SBIUK; and
- Maintaining close working relationships with the third line of defence, ensuring that internal audit has access to all relevant risk-related information.

The Risk Management Committee is also responsible for reviewing and making recommendations to the Board on Risk Management strategy, the Bank's risk appetite and core risk documents such as the ICAAP and ILAAP.

Legal and Compliance function

The Bank's Legal and Compliance function also forms part of the second line of defence and is managed by the Head of Legal & Compliance. It receives information relevant to its monitoring of the day-to-day conduct of SBIUK's activities. It ensures that the Bank has in place all the policies and procedures reasonably designed to achieve compliance with applicable laws and regulations. The compliance function looks at components of overall sound business practices and looks to identify and mitigate legal and compliance risks.

In delivering compliance within the Bank, SBIUK has embedded high standards. This is centred upon the Compliance Manual, Compliance Monitoring Programme, KYC / TCF policies, AML / Financial Crime policies and procedures, to make sure that the SBIUK's business is operating well within the relevant regulatory and legal frameworks. Furthermore, Compliance works closely with Risk Management and the front line businesses in providing reviews of new clients' on-boarding and all other aspects of conducting day to day business.

Third line of defence

The third line of defence ("3LOD") provides independent assurance on the effectiveness of the overall system of internal control, including risk management and compliance.

Internal Audit

The Internal Audit function is headed by Head of Internal Audit, who reports to the Chair of the Audit Committee. Internal Audit is an independent and objective assurance and consulting function designed to add value and improve SBIUK's operations. The internal audit function is co-sourced with one of the leading audit firms, PricewaterhouseCoopers. The internal auditor has devised a risk-based audit plan and conducts a risk-based approach to audit. Its role is to provide independent assurance that internal controls are in place and are adequate to mitigate risks and in doing so enhances the control culture so that governance processes are effective and efficient, and SBIUK's goals and objectives are met. It helps accomplish SBIUK's objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The Audit Committee reviews and approves Internal Audit's plans and resources, and evaluates its effectiveness. It also reviews all internal audit reports.

A review of governance arrangements for the ICAAP and ILAAP documents and associated systems and controls is part of the Internal Audit planning cycle.

Risk Governance

SBIUK's Board is responsible for establishing an effective Risk Management Framework. The Board has articulated the Bank's overall risk appetite and risk management strategy. The Board's Risk and Audit sub-committees monitor the Risk Management Framework, the internal audit environment and ensure that risk exposures are within the agreed risk appetite.

Any material breaches of SBIUK's risk policies, controls and procedures are reported to the Bank's Risk Management Committee and Board Audit Committee as appropriate.

Principal risks and risk mitigations

The principal risk categories facing the Bank in achieving its strategic objectives and financial performance are assessed and a summary of these risks are set out below together with the steps taken to mitigate the risks:

Principal risk and definition	How the Bank mitigates the risk
Business performance and strategic risk The risk arising from business decisions and improper implementation of those decisions	The Board and management recognise this as one of the material risks and this is mitigated by monitoring market developments, the macroeconomic environment, customer requirements and adapting the business strategy accordingly. A business plan has been developed by the senior management team and assumptions contained within the plan are reasonable and achievable based on their experience working and operating in the UK market. This plan has been approved by the Board. Stress testing is performed to show the potential impact if SBIUK's business objectives are not met. The exercise involves various stress scenarios that are assessed to be severe but plausible, and confirms the Bank would still retain sufficient capital and liquid resources.
Credit risk The risk that a borrower or counterparty fails to pay the interest or repay the principal on a loan on time In relation to treasury activities, there is a risk that the acquired securities or cash placed on deposit with other financial institutions is not repaid in full or in part	The Bank takes security and where appropriate, guarantees to support its lending and focus on sectors where the Bank has specific expertise. Concentration risk is managed by limits placed on counterparty exposures, geography and sector. The Bank has detailed credit policies for all types of lending and investments which are implemented in all business areas. New loans are approved by appropriate authorities within the Bank including the credit committee, and the loan and investment securities portfolios are subject to periodic reviews. The performance of the lending and investment portfolio is regularly monitored against the Risk Appetite.
Operational risk The risk of loss arising from inadequate or failed processes, people and systems	The Bank's exposure to operational risk is evaluated and controlled through the Risk & Control Self-Assessment (RCSA) process and via a Risk Event reporting and tracking process. Escalations are made to the Risk Management Committee monthly and to the Board Risk Committee where appropriate. The Bank has applied the Basic Indicator Approach in accordance with the Title III Chapter 2 of the CRR in order to calculate its Pillar 1 Operational Risk capital requirement.
Market risk	The Bank endeavours to match the currency and interest rate structure of assets with liabilities to create a natural

The risk that changes in market prices including interest rates and foreign exchange rates will affect the Bank's income or the value of its holdings	hedge. Any residual currency risks are minimised by entering into currency swap agreements.
Capital and liquidity risk *Capital* The risk that the Bank will have insufficient capital to cover unexpected losses, meet regulatory requirements or support growth plans *Liquidity* The risk that the Bank is unable to meet its financial obligations as they fall due	The Bank prepares ICAAP and ILAAP documents that are reviewed and challenged by the Board Risk Committee and ultimately approved by the Board. This requires the Bank to maintain appropriate levels of capital and liquidity on an on-going basis, and also in times of stress. The Bank sets prudent Risk Appetite Statement which is reviewed and approved by the Board at least annually. The capital and liquidity positions are periodically measured against the risk appetite and reported monthly to ALCO and to the Board on a quarterly basis.
Compliance risk The risk of financial loss, regulatory sanctions or loss of reputation as a result of failure to comply with the applicable laws, regulations and relevant business practice	Adequate governance and risk management arrangements have been put in place to ensure that the Bank complies with applicable laws, regulations and industry best practices. It includes detailed policies and procedures, skilled staff, on-going and periodic training programmes, defined escalation and reporting frameworks, oversight by senior management, Compliance and Risk departments and independent risk based internal audits. Ongoing oversight is performed by the management and board committees including Legal & Compliance committee, Board Risk committee and Board Audit committee.
Emerging Risks: Economic downturn including Brexit risk	Until the outcome of Brexit is clearer, including the nature of the future trading relationship between the UK and the EU, uncertainty in the economic environment is expected to continue. Nevertheless, a hard Brexit outcome would impact the UK economy and mortgages market in the short and medium term, which may impact the Bank's growth plans and affect asset quality if property prices fall significantly. The Bank has therefore adopted a conservative risk appetite for BTL and commercial mortgages, to minimise such risks. Moreover, as part of the stress testing process, scenarios of falling property prices have been factored in to assess the resilience to such market movements. Further, the Bank has also identified various management actions, which would ensure that the Bank has adequate capital and liquidity resources to support its operations.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Strategic Report, Directors Report and the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Accounting Standards, comprising FRS 102 ''The Financial Reporting Standard applicable in the UK and Republic of Ireland'', and applicable law (UK GAAP).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Bank and of the profit or loss of the Bank for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Chandak, Sharad Satyanarayan
Director
15 July 2019

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF STATE BANK OF INDIA (UK) LIMITED

Opinion

We have audited the financial statements of State Bank of India (UK) Limited (the ‘Bank’) for the year ended 31 March 2019 which comprises Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland” (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Bank’s affairs as at 31 March 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard, as applied to public interest entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of uncertainties due to United Kingdom exiting the European Union on our audit

The directors’ view on the impact of Brexit is disclosed on page 6.

The terms on which the United Kingdom may withdraw from the European Union, are not clear, and it is therefore not currently possible to evaluate all the potential implications to the Bank’s trade, customers, suppliers and the wider economy.

We considered the impact of Brexit on the Bank as part of our audit procedures, applying a standard firm wide approach in response to the uncertainty associated with the Bank’s future prospects and performance.

However, no audit should be expected to predict the unknowable factors or all possible implications for the Bank and this is particularly the case in relation to Brexit.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Bank's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We summarise below the key audit matters in forming our audit opinion above, together with an overview of the principal audit procedures performed to address each matter and, where relevant, key observations arising from those procedures.

These matters, together with our findings, were communicated to those charged with governance through our Audit Completion Report.

Area of Focus	How our audit addressed the area of focus
Credit risk – Allowance for impairment losses on loans and advances to customers Credit risk is an inherently judgemental area due to the use of subjective assumptions and a high degree of estimation in arriving at both specific and collective provisions. As described in note 3.8, the Bank has £1bn of loans and advances to customers with a collective provision of £1.85m. There are no specific provisions. The Banks accounting policy for impairment is set out in note 2.14. The allowance for impairment losses on loans and advances to customers represents management's best estimate of losses incurred in the loan portfolio at the balance sheet date. Estimates are made using incurred loss calculations which leverage historic / market average default rates and managements estimates on possible losses. There is an inherent risk, over credit events that have occurred but have not been identified at the year end. To cover this risk, SBI calculate a collective provision, therefore this is considered a key audit matter.	We have assessed the design and tested the operating effectiveness of the key controls operating in the Bank in relation to credit processes (e.g. underwriting, monitoring, collections and provisioning) We tested the process by which management identify non-performing loans and make related provisions. We focused on impairment triggers, calculation of impairment and consideration of collateral arrangements where relevant. This included testing a sample of loans to confirm that management had properly classified the loans as either performing or non-performing loans at the year end. We independently re-performed key aspects of the annual credit reviews performed by management and challenged management's judgement in respect of its assessment of the recoverability of the loan, assessing the completeness and robustness of management's review including the appropriate valuation of collateral held. Using external market data for default rates and credit losses, we assessed the reasonableness of the judgements applied by management in calculating the collective allowance for impairment losses. *We found the approach taken in respect of the calculation of the allowance for impairment losses to be consistent with the requirements of FRS 102. Management judgements made were reasonable.*

Our application of materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole. Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Materiality:	£1,832k
Benchmark applied	1% Net Assets

Rationale for benchmark applied	Net assets has been determined as the appropriate basis to calculate materiality given that the entity only commenced banking activities on 1 April 2018 and net assets is the most stable and predictable measure for a first year of full operation. Furthermore, net assets remains the focus of the regulator in terms of capital adequacy.
Performance Materiality	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceed as a whole. Performance materiality of £1,282k was applied to the audit.
Reporting threshold	We agreed with the Audit Committee that we would report to them misstatements identified during our audit above 3% of overall materiality (£55k) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

An overview of the scope of our audit

As part of designing our audit, we determined materiality and assessed the risk of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements such as making assumptions on significant accounting estimates.

We gained an understanding of the legal and regulatory framework applicable to the Bank and the industry in which it operates. We considered the risk of acts by the Bank which were contrary to the applicable laws and regulations including fraud. We designed our audit procedures to respond to those identified risks, including non-compliance with laws and regulations (irregularities) that are material to the financial statements.

We focused on laws and regulations that could give rise to a material misstatement in the financial statements, including, but not limited to, the Companies Act 2006 and compliance with relevant regulatory requirements.
We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. We used the outputs of a risk assessment, our understanding of the Bank's accounting processes and controls and its environment and considered qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.

Our tests included, but were not limited to, obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by irregularities including fraud or error, review of minutes of directors' meetings in the year and enquiries of management. As a result of our procedures, we did not identify any Key Audit Matters relating to irregularities, including fraud.

The primary responsibility for the prevention and detection of irregularities including fraud rests with both those charged with governance and management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are discussed under “Key audit matters” within this report.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor’s report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors’ Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors’ Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors’ Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Bank, or returns adequate for our audit have not been received from branches not visited by us; or
- the Banks financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors’ remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 18, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the board of directors on 17 May 2018 to audit the financial statements for the year ended 31 March 2018 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the years ended 31 March 2018 to 31 March 2019.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Bank and we remain independent of the Bank in conducting our audit.Our audit opinion is consistent with the additional report to the audit committee.

Use of the audit report

This report is made solely to the Bank's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's members as a body for our audit work, for this report, or for the opinions we have formed.

Paul Hodgett (Senior Statutory Auditor) for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
Tower Bridge House, St Katharine's Way, E1W 1DD
Date: 15 July 2019

INCOME STATEMENT

For the year ended 31 March 2019

	Note	12 months ended 31 March 2019 £'000	18 months ended 31 March 2018 £'000
Interest receivable and similar income	3.1	51,556	451
Interest payable and similar charges	3.1	(**26,214**)	(112)
Net interest income		**25,342**	**339**
Fees and commissions receivable		1,992	-
Net income on foreign exchange	3.10	60	-
Net loss on realised financial instruments		(192)	-
Other operating income		7	-
Operating income		**27,209**	**339**
Administrative expenses	3.2	(14,752)	(10)
Depreciation and amortisation	3.12	(832)	-
Total operating expenses		**(15,584)**	**(10)**
Operating profit before allowance for impairment losses and taxes	3.4	**11,625**	**329**
Allowance for impairment losses	3.9	(1,852)	-
Profit on ordinary activities before tax		**9,773**	**329**
Tax on profit of ordinary activities	3.5	(1,989)	-
Profit after tax for the financial year/period		**7,784**	**329**

The profit for the current year and the profit for the preceding year are derived from continuing operations. The notes to the financial statements are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2019

	12 months ended 31 March 2019 £'000	18 months ended 31 March 2018 £'000
Profit after tax	**7,784**	**329**
Revaluation of available for sale debt securities	29	-
Deferred tax adjustment on available for sale investment securities	(5)	-
Total other comprehensive income	**24**	**-**
Total comprehensive income for the year/period	**7,808**	**329**

The profit for the current period is derived from continuing operations.

The notes to the financial statements are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 March 2019 £'000	As at 31 March 2018 £'000
Assets			
Cash and balances with banks	3.6	19,472	-
Deposits with banks	3.7	165,712	225,339
Loans and advances to customers	3.8	1,044,412	-
Derivative financial instruments	3.10	7,194	-
Investment securities	3.11	345,303	-
Tangible fixed assets	3.12	3,846	-
Other assets	3.13	9,340	-
Total assets		**1,595,279**	**225,339**
Liabilities			
Deposits from banks	3.14	37,137	-
Deposit from customers	3.15	1,310,363	-
Derivative financial instruments	3.10	892	-
Other liabilities	3.16	13,750	10
Subordinated debt liabilities	3.17	50,000	50,000
Total liabilities		**1,412,142**	**50,010**
Shareholders' funds			
Share capital	3.18	175,000	175,000
Investment revaluation reserve		24	-
Retained earnings		8,113	329
Total equity		**183,137**	**175,329**
Total equity and liabilities		**1,595,279**	**225,339**

The notes to the financial statements are an integral part of these financial statements. These financial statements were approved and authorised for issue by the Board of Directors on 4 July 2019.

Signed on behalf of the Board of Directors
CHANDAK, Sharad Satyanarayan
CEO & Executive Director
State Bank of India (UK) Limited
Company registration no 10436460
15 July 2019

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2019	Note	Share capital £000	Retained earnings £000	Investment revaluation reserve £000	Total equity £000
As at 1 April 2018		175,000	329	-	175,329
Issue of share capital		-	-	-	
Profit on ordinary activities after tax		-	7,784	-	7,784
Movement in the valuation of available for sale debt securities				24	24
As at 31 March 2019	**3.18**	**175,000**	**8,113**	**24**	**183,137**

For the 18 months ended 31 March 2018	Note	Share capital £000	Retained earnings £000	Investment revaluation reserve £000	Total equity £000
As at 19 October 2016		-	-	-	-
Issue of share capital		175,000	-	-	175,000
Profit on ordinary activities after tax		-	329	-	329
As at 31 March 2018	**3.18**	**175,000**	**329**	**-**	**175,329**

The notes to the financial statements are an integral part of these financial statements.

The Bank's other reserves are as follows:

- Retained earnings represents cumulative profits or losses, net of dividends paid and other adjustments; and
- The investment revaluation reserve represents the cumulative after tax unrealised change in fair value of financial assets classified as available for sale, since their initial recognition.

NOTES TO FINANCIAL STATEMENTS

ACCOUNTING POLICIES

1 Basis of preparation

Reporting entity

State Bank of India (UK) Limited (SBIUK) or (the Bank) is a company incorporated in the United Kingdom and registered in England. The Bank is a wholly owned UK subsidiary of State Bank of India (SBI), a bank domiciled in India. The Bank is primarily involved in providing retail banking services to UK based customers and lending facilities to individuals, SMEs and corporate clients.

The Bank is a private company limited by shares and the registered address of the Bank is 15 King Street, London EC2V 8EA

1.1 Statement of compliance

SBIUK has prepared these annual accounts in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland ('FRS 102'), as issued in September 2015, the Companies Act 2006 and the provisions of Schedule 2 of the Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008.

The Bank has taken the following disclosure exemptions under FRS 102:

- Preparation of a Cash flow statement, on the basis that it is a qualifying entity and its ultimate parent company, State Bank of India, includes the bank's cash flows in its consolidated financial statements;
- Transactions or balances with members of the SBI group; and
- Disclosure exemption contained in FRS 102 section 1.12 with respect to disclosing key management personnel compensation in total.

1.2 Basis of measurement

The financial statements are prepared under the historical cost convention modified to include the following items which are measured at fair value:

- Derivative financial instruments; and
- Available for Sale investments.

1.3 Going concern

The financial statements are prepared on a going concern basis as detailed in the Directors' Report and Statement of Directors' Responsibilities. The Bank is satisfied that it has the resources to continue in business for the foreseeable future and the Bank has a record of profitability which is sustainable in the foreseeable future. The Bank meets its liquidity requirements through managing retail funding sources and meets the regulatory liquidity requirements through maintaining liquid assets. With regard to capital, the Bank maintains an adequate surplus over regulatory capital requirements.

1.4 Functional currency

The Bank's functional and presentation currency is Pound Sterling.

1.5 Critical estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported assets, liabilities, income and expenses. The actual results will differ from these estimates. The significant judgements made by management in applying the Bank's accounting policies and the key sources of estimation uncertainty in these financial statements, which together are deemed critical to the Banks results and financial position, are as follows:

Key areas of estimates

Allowance for impairment losses on loans and advances
The allowance for impairment losses on loans and advances is management's best estimate of losses incurred in the portfolio at the balance sheet date. Impairment allowances are made up of two components, those determined individually and those determined collectively. Estimates are made using incurred loss calculations which leverage historic / market average default rates and management's estimates on possible losses. As at March 31, 2019, gross loans and advances to customers totalled £1,046.3m against which collective allowance for impairments losses of £1.85m has been made.

Fair value of derivatives
Derivatives have been fair valued using forward market rate as of 31 March 2019.

Key areas of judgement

Revenue recognition
Interest income, fees, commissions, premiums and discounts are recognised based on an Effective Interest Rate (EIR) basis, where they are an integral part of the instrument yield. Judgement is required to determine whether fees are recognised as EIR or recognised when a service is performed.

2 Significant accounting policies

2.1 Business Combinations

On 1 April 2018 the Bank acquired the assets, liabilities and operations of certain business areas from SBI London Branch. The business combination was considered a transaction under common control and as a result the assets and liabilities acquired were done so at book value. The book value of assets transferred was equal to the book value of liabilities transferred.

2.2 Net interest income

Interest income and expense are recognised in the Income statement using the effective interest rate method. The 'effective interest rate' is the rate that discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the EIR includes transaction costs and fees and discounts paid or received that are an integral part of the EIR. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability. Interest income and expense presented in the income statement include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest rate basis;
- interest on available-for-sale investment securities calculated on an effective interest rate basis.

2.3 Fees and Commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate. Other fees and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – are recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognised on a straight-line basis over the commitment period. Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

2.4 Foreign currency

Transactions in foreign currencies are translated to the Bank's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

2.5 Cash and cash equivalents

'Cash and cash equivalents' include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the balance sheet.

2.6 Tangible assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings.

Depreciation is charged to the profit and loss account on a straight-line method or declining balance method, depending on the category of asset over the estimated useful lives of each part of an item of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

- Tenants improvements to Leasehold Residential and Office Buildings – Shorter of term of Lease or 10 years
- Computer Hardware & Software - 5 years
- Fixtures and fittings & electrical items - 20% on a declining balance basis

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since the last annual reporting date in the pattern by which the Bank expects to consume an asset's future economic benefits.

2.7 Provisions and contingencies

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle an obligation; and the amount of the obligation can be estimated reliably.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligation as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current assessments of the time value of money and the risks associated with an obligation. The increase in the provision due to passage of time is recognised as a finance cost.

Contingencies

Contingent liabilities, arising as a result of past events, are only recognised when (i) it is probable that there will be an outflow of resources and the amount can be reliably measured at the reporting date (ii) the existence does not rely on the occurrence or non-occurrence of certain future events which are not wholly within the Bank's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

Contingent assets are not recognised. Contingent assets are disclosed in the financial statements when an inflow of economic benefit is probable.

2.8 Income taxes

Tax on the profit or loss for the period comprises current and deferred tax. Where items recognised in other comprehensive income or equity are chargeable or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction, or other event that resulted in the tax expense or income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.
Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted. Unrelieved tax losses and other deferred tax assets are recognised only

to the extent that is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

2.9 Financial instruments

Under the options available to it under FRS 102, the Bank has chosen to apply the measurement and recognition provisions of IAS 39 Financial Instruments: Recognition and Measurement.
The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

Classification

Financial assets
The Bank classifies its financial assets into one of the following categories:

- Held to maturity;
- Available-for-sale;
- Loans and advances; and
- Fair value through profit and loss (FVTPL).

Financial liabilities
The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost.

Measurement

Amortised cost measurement
The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Fair value measurement
'Fair value' is the amount for which an asset could be exchanged, a liability settled, or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm's length transaction.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in the profit or loss on an appropriate basis over the life of the instrument, but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets, or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale and repurchase transactions.

2.10 Held to Maturity investments

'Held-to-maturity investments' are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated as at FVTPL, or as available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest rate method, less any impairment losses. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years.

2.11 Available-for-Sale investments

'Available-for-sale investments' are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprises equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

Interest income is recognised in profit or loss using the effective interest rate method. Dividend income is recognised in the profit or loss when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in the profit or loss. Impairment losses are recognised in the profit or loss. Other fair value changes, other than impairment losses, are recognised in other comprehensive income ('OCI') and presented in the Investment revaluation reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to the profit or loss.

A non-derivative financial asset may be reclassified from the available-for-sale category to the loans and receivables category if it would otherwise have met the definition of loans and receivables and if the Bank has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

2.12 Loans and receivables

Loans and receivables, which include loans and advances and other receivables, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as held for trading, designated at fair value through profit and loss, available for sale or held to maturity. Loans and receivables are initially recognised at fair value including direct and incremental transaction costs. They are subsequently valued at amortised cost using the EIR method. Loans and receivables are stated at amortised cost after deduction of amounts which are required as impairment provisions. Where loans have been acquired at a premium or discount, these premiums and discounts are amortised through the profit and loss account from the date of acquisition to the expected date of maturity using the EIR method.

2.13 Deposits, debt securities issued and subordinated liabilities

Deposits, debt securities issued and subordinated liabilities are the Bank's sources of debt funding.

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest rate method.

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

2.14 Impairment of financial assets

Identification, measurement of impairment and objective evidence of impairment
At each reporting date, the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit and loss are impaired. A financial asset or a group of financial assets are 'impaired' when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- indications that a borrower or issuer will enter bankruptcy;
- the disappearance of an active market for a security; or

- observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

In making an assessment of whether an investment in sovereign debt is impaired, the Bank considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields;
- The rating agencies' assessments of creditworthiness;
- The country's ability to access the capital markets for new debt issuance;
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness; and
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is capacity to fulfil the required criteria;

Individual and collective assessment

The Bank considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and a collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment.

Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

The individual component of the total allowance for impairment applies to financial assets evaluated individually for impairment, and found to be individually impaired, and is based on management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the credit risk function.

A collective component of the total allowance is established for:

- Groups of homogeneous loans that are not considered individually significant; and
- Groups of assets that are individually significant but that were not found to be individually impaired (loss 'incurred but not reported' or IBNR).

The collective allowance for groups of homogeneous loans is established using a formula approach based on the historical loss rate experience of the industry for the specific asset type. Management applies judgement to ensure that the estimate of loss arrived at on the basis of historical information is appropriately adjusted to reflect the economic conditions and product mix at the reporting date.

The IBNR allowance covers credit losses inherent in portfolios of loans and advances, and held-to-maturity investment securities with similar credit risk characteristics, when there is objective evidence to suggest that they contain impaired items but the individual impaired items cannot yet be identified.

In assessing the collective loss allowance, management considers factors such as credit quality, portfolio size, concentrations and economic factors. To estimate the required allowance, assumptions are made to define how inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowance depends on the model assumptions and parameters used in determining the collective allowance.

Measurement
Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and the new financial asset is recognised at fair value. The impairment loss before an expected restructuring is measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Impairment losses are recognised in the profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on impaired assets continues to be recognised through the unwinding of the discount. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through the profit or loss.

Impairment losses on available-for-sale investment securities are recognised by reclassifying the losses accumulated in the Investment revaluation reserve in equity to the profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment attributable to application of the effective interest rate method are reflected as a component of interest income.

Reversal of impairment and write-offs
If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through the profit or loss; otherwise, any increase in fair value is recognised through OCI. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is always recognised in OCI.

The Bank writes off a loan or an investment debt security, either partially or in full, and any related allowance for impairment losses, when the Bank determines that there is no realistic prospect of recovery.

Forbearance on loans
A range of forbearance options are available to support customers who are in financial difficulty. The purpose of forbearance is to support customers who have temporary financial difficulties and help them get back on track. The main options offered by the Bank include:

- Temporary transfer to an interest only mortgage;
- Reduced monthly payments;
- Extension of mortgage term; and
- Capitalisation of arrears.

Customers requesting a forbearance option will need to provide information to support the request which is likely to include a budget planner, statement of assets and liabilities, bank / credit card statements, payslips etc. in order that the request can be properly assessed. If the forbearance request is granted the account is monitored in accordance with the policy and procedures. At the appropriate time the forbearance option that has been implemented is cancelled, with the exception of capitalisation of arrears, and the customer's normal contractual payment is restored. When a financial asset is modified/renegotiated the Bank assesses whether this modification results in de-recognition. A modification results in de-recognition when it gives rise to substantially different terms. If the difference in present value is greater than 10% the Bank deems the arrangement is substantially different leading to de-recognition and recognition of new asset.

2.15 Derivatives and hedge accounting

Derivatives held for risk management purposes are measured at fair value in the balance sheet and are classified as derivative financial assets or liabilities. Changes in the fair value are recognised immediately in the profit or loss as a component of net income from other financial instruments at FVTPL.

The Bank currently does not perform any hedge accounting.

2.16 Other liabilities

The other liabilities consist of liabilities for the creditors and Corporation tax payable. They are measured at amortised cost. These liabilities are derecognised when liabilities are extinguished.

2.17 Defined contribution pension plan

A defined contribution plan is a post-employment benefit plan under which the Bank pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

2.18 Share capital

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from proceeds, net of tax.

3 NOTES TO THE FINANCIAL STATEMENTS

3.1 Interest receivable and interest payable

Interest receivable and similar income	12 months ended 31 March 2019 ("2019") £'000	18 months ended 31 March 2018 ("2018") £'000
Interest income from loans and advances	37,730	-
Interest income from investment securities	9,760	-
Interest income from group undertakings	2,537	-
Interest Income on derivatives measured at FVTPL	1,451	451
Other interest income	78	-
	51,556	**451**
Interest payable and similar charges		
Interest expense on deposits	(16,700)	-
Interest expense on interbank borrowing	(124)	-
Interest Expense on derivatives measured at FVTPL	(8,390)	(112)
Interest on Subordinated bonds	(1,000)	-
	(26,214)	**(112)**

3.2 Administrative expenses

	Notes	**2019**	**2018**
Average number of employees*		158	-
		£'000	**£'000**
Wages and salaries		(5,268)	-
- This includes directors' emoluments	3.2a		-
Social security costs		(536)	-
Pension costs		(329)	-
Other staff costs		(220)	-
Total staff costs		**(6,353)**	**-**
General administrative expenses	3.3	(8,399)	(10)
Total administrative expenses		**(14,752)**	**(10)**

* Of these, employees, 135 are employed in the front office and 23 in the back office. This excludes back office employees of SBI London Branch supporting subsidiary operations.

3.2a Directors' emoluments

	2019 £'000	**2018 £'000**
Directors fees and emoluments	(163)	-
Pension contributions	-	-
Total directors' emoluments	**(163)**	**-**

The highest paid director received emoluments of £46,297 (2018: NIL) and the amount of pension contributions paid to the Bank's defined contribution scheme was NIL (2018: NIL).

3.3 General administrative expenses

	2019 £'000	2018 £'000
Premises costs	(2,874)	-
Professional fees	(1,754)	-
Marketing	(501)	-
Management charges from Parent	(722)	-
Regulatory fees	(651)	-
Audit of these financial statements	(110)	(10)
Printing & postage	(407)	-
IT services	(343)	-
Other expenses	(1,037)	-
Total administrative expenses	**(8,399)**	**(10)**

3.4 Operating profit before impairments and taxes

	Note	2019 £'000	2018 £'000
Operating income		**27,209**	**339**
Total staff costs	3.2	(6,353)	-
General administrative expenses	3.3	(8,399)	(10)
Depreciation and amortisation		(832)	-
Total operating expenses		**(15,584)**	**(10)**
Operating profit before impairments and taxes		**11,625**	**329**

3.5 Taxation

Analysis of tax charge/(credit) for the period	2019 £'000	2018 £'000
Current tax		
UK corporation tax at 19.00% (2018: 19.00%)	(1,826)	-
Adjustments in respect of prior periods	(4)	-
Total current tax charge/(credit)	**(1,830)**	**-**
Deferred tax		
Origination and reversal of timing differences	(159)	-
Tax on profit on ordinary activities	**(1,989)**	**-**

Reconciliation of tax charge	2019 £'000	2018 £'000
Profit on ordinary activities before tax	9,773	329
Tax on profit on ordinary activities at standard CT rate of 19.00% (2018: 19.00%)	(1,857)	(63)
Effects of:		
Fixed asset differences	(38)	-
Expenses not deductible for tax purposes	(6)	-
Group relief (surrendered)/claimed*	67	63
Adjustments to tax charge in respect of previous periods	(4)	-
Adjust closing deferred tax to average rate of 19.00%	19	-
Difference in tax value on transfer of assets from branch	(170)	-
Tax charge/(credit) for the period	**(1,989)**	**-**

* The Bank is utilising loss relief bought forward from SBICAP (UK) Ltd., which is also 100% owned by the SBI.

Tax included in statement of total recognised gains and losses	2019	2018
Deferred tax	£'000	£'000
Origination and reversal of timing differences	(5)	-
Tax included in statement of total recognised gains	**(5)**	**-**
Provision for deferred tax		
Fixed asset timing differences	(159)	-
Short term timing differences	(5)	-
Total deferred tax asset/(liability)	**(164)**	**-**

3.6 Cash and balances with banks

	2019 £'000	2018 £'000
Cash in hand	494	-
Balances held with Bank of England	21	-
Current account balances with banks	18,957	-
	19,472	**-**

3.7 Deposits with banks

	2019 £'000	2018 £'000
More than 5 years	-	-
1 year - 5 year maturity	130,000	-
3months - 1 year maturity	-	-
Repayable within 3 months	35,712	225,339
	165,712	**225,339**

The Bank holds deposits of £160.7m (2018:£225m) of various maturities with SBI London Branch.

3.8 Loans and advances to customers

As at 31 March 2019	Notes	Non-performing loans	Performing loans	Total
Remaining maturity		£'000	£'000	£'000
Over 5 years		-	400,892	400,892
Between 1 year and 5 years		-	520,784	520,784
Between 3 months and 1 year		-	72,106	72,106
3 months and less		-	52,482	52,482
Past due beyond 90 days		-	-	-
Total (Gross)		**-**	**1,046,264**	**1,046,264**
Allowance for impairment losses		-	-	-
Collective provision		-	1,852	1,852
Total	**3.9**	**-**	**1,852**	**1,852**
Total (Net)		**-**	**1,044,412**	**1,044,412**

No loans were individually identified as either impaired or past due beyond 30 days as of 31 March 2019. There were no loans and advances to customers in the comparative period.

Description of loans

Non–Performing loans: loans which are more than 90 days contractually past due or which have individual provisions raised against them. Objective evidence of impairment may include: indications that the borrower or group of borrowers are experiencing significant financial difficulty, default or delinquency in interest or principal repayments, debt being restructured to reduce the burden on the borrower, covenant breaches, loss of significant income flows, and adverse impact of economic factors on the value of any underlying collateral.

Performing loans: loans, which are individually neither impaired nor past due beyond 90 days, but on which a collective provision is raised against.

3.9 Allowance for impairment losses

As at 31 March 2019	Notes	Specific impairment	Collective impairment	2019 Total	2018 Total
Loans and advances		£'000	£'000	£'000	£'000
At 1 April 2018		-	-	-	-
Charge to profit and loss		-	1,852	1,852	-
Release to profit and loss		-	-	-	-
Amounts written off		-	-	-	-
At 31 March 2019		**-**	**1,852**	**1,852**	**-**

There was no allowance for impairment losses in the comparative period, since the Bank had not undertaken any trading activity.

3.10 Derivatives at fair value

As at 31 March 2019	Notional amounts	Fair Value Assets	Fair Value Liabilities
	£000	£000	£000
Exchange rate related contracts			
Currency swap agreements	699,346	7,194	(892)

There were no derivatives in the comparative period.

Bank used derivatives to economically hedge exposure to foreign exchange risks and it does not hold or issue derivatives for speculative or trading purposes. The fair value of derivatives held for non-trading purposes is determined by using observable market data. The fair value changes on derivatives are recognised in the profit and loss under net income on foreign exchange, in addition to the foreign exchange gains/(losses) on the assets and liabilities.

	2019 £'000
Fair value changes on derivatives	6,302
Foreign exchange revaluation losses	(6,242)
Total	**60**

The fair value of the derivatives at year end is £6.302m.

3.11 Investment securities

	Fair Value 2019 £'000	Carrying Amount 2019 £'000
Available for Sale		
Government Issued	21,948	21,948
Held to Maturity		
Government Issued	7,112	7,116
Other public sector securities & corporates	318,476	316,239
Total	**347,536**	**345,303**

There were no investment securities in the comparative period.

During the year, the Bank has not made allowance for impairment losses on the investment securities.

3.12 Tangible fixed assets

	Fixtures and fittings £'000	Computer equipment £'000	2019 Total £'000
Cost			
At 1 April 2018	-	-	-
Additions	4,515	163	4,678
At 31 March 2019	4,515	163	4,678
Accumulated depreciation			
At 1 April 2018	-	-	-
Additions			
Charge	785	47	832
At 31 March 2019	**785**	**47**	**832**
Carrying amount			
At 1 April 2018	-	-	-
At 31 March 2019	**3,730**	**116**	**3,846**

Additions made during the period were part of the business combinations, as explained in note 2.1.

3.13 Other assets

	2019 £'000	2018 £'000
Prepayments and accrued income	6,610	-
Other Assets	2,730	-
Total	**9,340**	**-**

3.14 Deposit from banks

	2019 £'000	2018 £'000
Repayable on demand	-	-
With agreed maturity dates		
Less than 3 months	37,137	-
Greater than 3 months	-	-
Total	**37,137**	**-**

All of the above borrowings were from the SBI London branch.

3.15 Deposits from customers

	2019 £'000	2018 £'000
Repayable on demand and less than 1 month	647,589	-
With agreed maturity dates		
Between 1 and 3 months	37,261	-
Between 3 months and 1 year	204,121	-
Between 1 and 3 years	397,754	-
Between 3 and 5 years	23,638	-
Over 5 years	-	-
Total	**1,310,363**	**-**

3.16 Other liabilities

	2019 £'000	2018 £'000
Accrued expenses	7,205	-
Provision for tax liabilities	793	-
Other liabilities	5,752	10
Total	**13,750**	**10**

3.17 Subordinated debt liabilities

	Date of Issue	Interest Rate	Maturity	2019 £'000	2018 £'000
Unsecured loan	16/02/18	2%	10 years	50,000	50,000
				50,000	**50,000**

Interest repayments are made annually on the 31 March of each year. This subordinated debt issued by SBI qualifies as Tier 2 capital.

3.18 Share capital

	2019 £'000	2018 £'000
175,000,000 ordinary, called up and paid shares of £1 each	175,000	175,000
	175,000	**175,000**

The holder of the ordinary shares is entitled to receive dividends as declared and is entitled to one vote per share at meetings of the Bank.

3.19 Contingent liabilities

The Bank has £20,000 of contingent liabilities arising from letters of credit opened and confirmed and guarantees issued. All of this is cash collateralised (2018: NIL). The Bank in the normal course of business issues guarantees on behalf of its customers. Cash collateral is held against these guarantee arrangements. It is impracticable to ascertain the timing or amount of the outflow of these contingent liabilities.

3.20 Commitments

	2019 £'000
Unutilised overdraft commitments	8,253
Pipeline loans	12,927
Total	**21,180**

SBI London Branch has the following future minimum lease payments under non-cancellable operating leases for each of the following time bands below. The Bank (SBI UK Limited) has agreed to fulfil these obligations. These are in regard to the standard lease agreements for the lease of the branches with remaining terms between 3 months and 13 years. However the Bank does not have any lease commitments and hence, these have not been capitalised in the financial statements.

Lease Commitments as at 31 March 2019	2019 £'000
Within one year	1,124
Between one and five years	2,961
More than five years	2,194
Total	**6,279**

3.21 Related party transactions

The Bank enters into commercial transactions with the Parent bank in the ordinary course of business on an arm's length basis. The Bank is exempt from disclosing other related party transactions that are with the companies that are wholly owned within the Group.

4.0 Ultimate Parent Undertaking

State Bank of India (UK) Ltd is a wholly owned subsidiary of State Bank of India, a state owned bank incorporated under the State Bank of India Act and quoted on the National Stock Exchange of India. The consolidated Financial Statements of the parent can be obtained from State Bank Bhavan, Corporate Center, Madame Cama Road, Mumbai, Maharashtra -400021, India. The financial statements of SBI are also available on the website www.sbi.co.in.

5.0 Post Balance Sheet events

There have been no reportable events after the date of the Statement of Financial Position.

6.0 Risk management

The Bank has financial instruments with exposure to capital management risk, credit risk, liquidity risk, market risk and operational risk.

6.1 Capital management

The Bank's regulatory capital requirements are set and monitored by its regulator the PRA. The Bank has implemented the CRD IV (Basel III) framework for calculating minimum capital requirements through the ICAAP.

The Bank uses regulatory capital ratios in order to monitor its capital base and these capital ratios remain the international standards for measuring capital adequacy. The PRA's approach to such measurement based upon CRD IV is primarily based on monitoring the Capital Resource Requirement to available capital resources. The PRA also sets Total Capital Requirement (TCR) for the Bank that sets capital requirements in excess of the minimum Capital Resource Requirement. A key input to the TCR setting process is the Bank's ICAAP. Under the current PRA guidelines, the total capital adequacy requirement for the Bank equals the aggregate of the Pillar 1 capital requirement, the Pillar 2A capital requirement (derived from the existing Internal Capital Guidance), and applicable macro-prudential buffers such as the Countercyclical Capital Buffer (CCyB), the Capital Conservation Buffer (CCoB) and the 'PRA buffer'.

The Bank's policy is to maintain an adequate capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. There were no breaches in regulatory capital requirements reported in the period. The table below, based on the audited Financial Statements, shows the breakdown of the Bank's capital resources:

	2019 £000	**2018 £000**
Tier 1 capital		
Share Capital	175,000	175,000
Retained earnings	8,113	329
Other Comprehensive Income	24	-
Total –Tier 1 capital	**183,137**	**175,329**
Tier 2 capital		
Subordinated debt	50,000	50,000
Allowance for impairment losses	1,852	-
Total –Tier 2 Capital	**51,852**	**50,000**
Total Capital	**234,989**	**225,329**

6.2 Credit risk

Credit risk is the risk of loss as a result of the failure of a party with whom the Bank has contracted to meet its obligations. The main credit risk that the Bank faces relate to its exposure to banks and corporates from the investment portfolio, inter-bank lending, and advances to corporate and retail borrowers.

The Board of Directors has delegated the management of credit risk to the Risk Management Committee. The committee monitors all credit related risks at the Bank and approves them, while the Credit Policy Guidelines are approved by the Board of Directors Risk committee. The Risk management committee reviews all the major advances granted by the Bank and ensures the maintenance of strong internal credit controls.

The Bank is committed to mitigating risk through all stages of the lending cycle. The Bank monitors customer affordability and the loan-to-value (LTV) percentages of all loans at the application stage. Additionally, the Bank employs underwriting and fraud detection policies to minimise losses once loans have been approved as well as taking a proactive approach to the monitoring and treatment of impaired loans through the collections and recovery functions. The Bank maintains comprehensive management information on the performance and movements within the various loan portfolios to ensure that credit risk is adequately controlled, and any adverse trends are identified before they impact on performance. This management information is reported and discussed at the Risk Management Committee on monthly basis and monitored at a Board Risk Management committee level on quarterly basis.

There are no loans and advances which are non-performing on the reporting date, however, a collective provision of £1.852m has been raised. The following table shows the breakdown of the Bank’s loans and advances to customers, categorised by the degree of risk of financial loss:

2019	**Carrying Value £'000s**	**Maximum Exposure £'000s**
Neither past due beyond 90 days nor impaired	1,044,412	1,046,264
Past due beyond 90 days, but not impaired	-	-
Impaired	-	-
Repossessions	-	-
Unutilised overdraft commitments	-	8,253
Pipeline loans	-	12,927
Total	**1,044,412**	**1,067,444**

Loans and advances to customers have been reported net of Allowance of impairment losses as at 31 March 2019 in the table above and in the rest of the risk management section.

Impaired loans

Impaired loans are loans for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreement.

Past due but not impaired

Loans where contractual interest or principal payments are past due, but the Bank believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Bank.

Allowances of impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main component is a specific loss provision that relates to individually significant exposures and represents the amount remaining after deducting the expected discounted cash flows from the outstanding loan principal and accrued interest at the Balance Sheet date.

Forbearance policy

The Bank periodically assesses whether there is objective evidence that a financial asset or portfolio of financial assets is impaired. In conducting this assessment, Management takes account of any forbearance arrangements it has with its customers. The Bank has a detailed forbearance policy and as part of the arrears management process, the Bank will consider providing a forbearance facility to the borrower after considering each case and analysing it based on its own merits and the specific circumstances of the borrower. The primary aim of providing a forbearance facility to a borrower is to enable the complete recovery of the debt through the full repayment of any arrears. Where the circumstances of the borrower means that this primary aim is not achievable, the secondary aim is to recover the customer into a 'sustainable terms' position on their debt. In all cases the provision of forbearance aims to minimise the risk of the borrower ultimately defaulting on their debt and losing their security. As at 31 March 2019, no loans and advances had been considered for forbearance.

Write off policy

The Bank writes off a loan balance (and any related allowances for impairment losses) when the Credit Committee determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Analysis of credit portfolio

An analysis of the Bank's total credit exposures as at 31 March 2019 (including Investment Securities, loans and advances to customers and balances and deposits with Banks), split by credit ratings is provided below:

	Investment Securities £'000	**Loans to customers & deposits with banks £'000**
AAA to AA-	64,369	21
A+ to A-	28,427	-
BBB+ to BBB-	205,262	194,908
BB and below	47,245	491,323
Unrated	-	543,344
Total	**345,303**	**1,229,596**

An analysis of the Bank's total credit exposures as at 31 March 2019 (including Investment Securities, loans and advances to customers and balances and deposits with Banks), split by geography is provided below:

Geography	**£'000s**	**%**
Great Britain	633,583	40%
United States of America	459,692	29%
India	278,219	18%
Spain	57,652	4%
France	29,343	2%
South Korea	22,308	1%
Africa	20,113	1%
Other geographies	73,989	5%
Total	**1,574,899**	**100%**

An analysis of the Bank's total credit exposures as at 31 March 2019 (including Investment Securities, loans and advances to customers and balances and deposits with Banks), split by industry sectors is provided below:

Industry Sector	**£'000s**	**%**
Banks	339,426	22%
Real Estate	303,199	19%
Consumer Services	175,299	11%
Health Care Equipment & Services	108,044	7%
Transportation	94,831	6%
Materials	85,856	5%
Pharmaceuticals, Biotechnology & Life Sciences	84,769	5%
Automobiles & Components	61,928	4%
Sovereign	49,177	3%
Other Sectors	272,370	18%
Total	**1,574,899**	**100%**

6.3 Liquidity risk

Liquidity risk is the risk the Bank does not have available sufficient resources to meet its obligations as they fall due. The Bank's approach to managing liquidity is to ensure that it will always have sufficient available financial resources to meet its liabilities when due, under normal and stressed conditions, without any unacceptable losses or risk to the Bank's reputation. The Bank has established an Internal Liquidity Adequacy Assessment Process (ILAAP), which has been approved by the Board of Directors. The ILAAP describes how the Bank manages its liquidity within predetermined limits and how it maintains a buffer of High Quality Liquid Assets (HQLA) to ensure that it will be able to meet its liabilities during times of stress. The Bank maintains appropriate levels of liquidity in the form of High Quality Liquid Assets on an on-going basis. The liquidity positions and metrics (including Liquidity Coverage Ratio and Net Stable Funding Ratio) are periodically measured against the Bank's risk appetite and reported monthly to ALCO and to the Board on a quarterly basis. The following table below shows the undiscounted cash flows as at 31 March 2019 on the Bank's financial assets and liabilities into relevant maturity groupings based on the remaining period.

	< 1 month £'000	**1 to 3 months £'000**	**3 to 12 months £'000**	**1 to 5 years £'000**	**> 5 years £'000**	**No Maturity £'000**	**Total £'000**	**Carrying Amount £'000**
Assets								
Cash and balances with banks	19,472	-	-	-	-	-	19,472	19,472
Deposits with banks	10,998	25,508	2,124	135,638	-	-	174,268	165,712
Loans and advances	50,656	6,481	91,083	590,350	426,447	-	1,165,017	1,044,412
Derivative instruments	4,451	2,743	-	-	-	-	7,194	7,194
Investment Securities	5,034	22,315	32,799	252,934	56,963	-	370,045	345,303
Tangible Fixed Assets	-	-	-	-	-	3,846	3,846	3,846
Other Assets	7,053	-	-	-	-	2287	9,340	9340
	97,664	**57,047**	**126,006**	**978,922**	**483,410**	**6,133**	**1,749,182**	**1,595,279**
Liabilities and shareholders' funds								
Deposits from banks	(42)	(37,173)	-	-	-	-	(37,215)	(37,137)
Deposit from customers	(648,643)	(38,638)	(209,248)	(432,348)	-	-	(1,328,877)	(1,310,363)
Derivative financial instruments	-	-	(892)	-	-	-	(892)	(892)
Other Liabilities	(13,750)	-	-	-	-	-	(13,750)	(13,750)
Subordinated debt liabilities	-	-	(1,000)	(4,000)	(53,888)	-	(58,888)	(50,000)
Capital Funds	-	-	-	-	-	(175,000)	(175,000)	(175,000)
Investment revaluation reserve	-	-	-	-	-	(24)	(24)	(24)
Retained earnings	-	-	-	-	-	(8,113)	(8,113)	(8,113)
Unutilised overdraft commitments	(8,253)	-	-	-	-	-	(8,253)	-
	(670,688)	**(75,811)**	**(211,140)**	**(436,348)**	**(53,888)**	**(183,137)**	**(1,631,012)**	**(1,595,279)**

6.4 Market risk

Market risk is the risk that changes in market prices such as interest rate and foreign exchange rates will affect the Bank's income or the value of its holdings. The Bank has developed a detailed market risk management policy which is subject to review by the Risk Management Committee and approved by the Board of Directors. The Risk Management Committee sets the Market Risk tolerance levels which are approved by the Board. These are managed on a daily basis. Capital is allocated to mitigate market risk in accordance with regulatory requirements.

Valuation Risk
The fair value of a financial instrument is the amount for which an asset can be exchanged, or a liability settled, in an arm's length transaction between knowledgeable willing parties. Wherever possible, fair value is determined by reference to a quoted market price for that instrument. In the absence of readily ascertainable market values, fair values are determined based on the best information available e.g. by reference to similar assets, similar maturities or other analytical techniques. The carrying amounts of the Bank's assets and liabilities are considered to equate to the fair values of those assets and liabilities.

Financial assets and liabilities not carried at fair value:
Loans and advances to banks and customers are considered to be short term in nature and where these relationships are longer term there are considered to be no material factors in terms of impairment, credit or market risk, which would indicate that the carrying value differs from the fair value. Deposits from banks and customers are considered to be short term in nature and where these relationships are longer term there are no material factors which indicate that the carrying value differs from the fair value.

Financial assets and liabilities that are carried at fair value:
The Bank holds available for sale securities ('AFS') which are carried at fair value. The fair value measurement of these assets is categorised as (a) in the fair value hierarchy because these investments can be traded in an active market and prices are readily available on an arm's length basis.

Below are the Banks's financial instruments by category as at 31 March 2019:

	Available for sale £'000	Held to Maturity £'000	Fair value through profit or loss £'000	Loans & receivables £'000	Total £'000
Assets					
Cash and balances with banks	-	-	-	19,472	19,472
Loans and advances to banks	-	-	-	165,712	165,712
Loans and advances to customers	-	-	-	1,044,412	1,044,412
Investment securities	21,948	323,355	-	-	345,303
Derivatives at fair value	-	-	7,194	-	7,194
Other assets	-	-	-	13,186	13,186
Total Assets	**21,948**	**323,355**	**7,194**	**1,242,782**	**1,595,279**
Financial liabilities					
Deposits from banks	-	-	-	37,137	37,137
Deposits from customers	-	-	-	1,310,363	1,310,363
Subordinated debt	-	-	-	50,000	50,000
Derivatives at fair value	-	-	892	-	892
Other liabilities	-	-	-	13,750	13,750
Total Liabilities	**-**	**-**	**892**	**1,411,250**	**1,412,142**

No interest income on impaired debt securities and impaired loans and receivables has been recognised in the year. The fair value of derivatives held for non-trading purposes is determined by market prices, or, where market prices are not available, by applying current market information to pricing or valuation models.

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments
- Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs that are unobservable.

The table below shows a hierarchy that reflects the significance of observable market inputs for financial instruments measured at fair value as at 31 March 2019.

Financial assets	**Level**	**Available for sale £'000**	**Fair value through profit or loss £'000**	**Total £'000**
Investment securities	Level 1	21,948	-	21,948
Derivatives at fair value	Level 2	-	7,194	7,194
Total Assets		**21,948**	**7,194**	**29,142**
Derivatives at fair value	Level 2	-	892	892
Total Liabilities		**-**	**892**	**892**

Interest rate risk

Interest rate risk in the Banking Book (IRRBB) arises from financial instruments where net interest income or expense and the market value of the Bank's assets or liabilities are exposed to movements in interest rates. Interest rate risk is managed by matching and monitoring the yield and duration exposure built into the Bank's portfolio. The table below summarises the re-pricing mismatches on the Bank's assets and liabilities as at 31 March 2019. Items are allocated to time bands by reference to the earlier of the next contracted interest rate re-pricing date and the maturity date.

	Less than 3months £'000	3 months to 1 year £'000	1 year to 5 years £'000	More than 5 years £'000	Non interest bearing £'000	Total £'000
Assets						
Cash and balances with banks	-	-	-	-	19,472	19,472
Deposits with banks	15,712	-	150,000	-	-	165,712
Loans and advances to customers	876,477	36,739	127,933	3,263	-	1,044,412
Derivative financial instruments	7,194	-	-	-	-	7,194
Investment Securities	21,077	27,541	237,088	55,375	4,222	345,303
Tangible Fixed Assets	-	-	-	-	3,846	3,846
Other Assets	-	-	-	-	9,340	9,340
	920,460	**64,280**	**515,021**	**58,638**	**36,880**	**1,595,279**
Liabilities and shareholders' funds						
Deposits from banks	-	37,134	-	-	3	37,137
Deposit from customers	681,962	625,757	345	-	2,299	1,310,363
Derivative financial instruments	-	892	-	-	-	892
Other Liabilities	-	-	-	-	13,750	13,750
Subordinated debt liabilities	50,000	-	-	-	-	50,000
Capital Funds	-	-	-	-	175,000	175,000
Investment revaluation reserve	-	-	-	-	24	24
Retained earnings	-	-	-	-	8,113	8,113
	731,962	**663,783**	**345**	**-**	**199,189**	**1,595,279**
Interest rate sensitivity gap	**188,498**	**(599,503)**	**514,676**	**58,638**	**(162,309)**	**-**
Cumulative sensitivity gap	**188,498**	**(411,005)**	**103,671**	**162,309**	**-**	**-**

The Bank monitors the sensitivity of the Bank's financial assets and liabilities using interest rate scenarios. Interest rate risk originating from banking activities arises partly from the employment of non-interest bearing liabilities such as Shareholders' funds and customer current accounts, but also from the gaps that arise from the normal course of business.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various interest rate scenarios. The table below shows the impact on net interest income over the life of the assets and liabilities of a 200 basis point rise or fall in the base rate of the main currencies traded by the Bank, and assumes a constant balance sheet position:

Interest rate sensitivity **As at 31 March 2019**	**GBP** **£'000**	**USD** **£'000**	**EUR** **£'000**
200 basis points increase	(1,702)	(11,564)	162
200 basis points decrease	1,559	12,970	(167)

Foreign exchange risk

Foreign exchange risk is the risk that changes in foreign currency exchange rates will affect the Bank's income or the value of assets and liabilities. The objective of foreign currency risk management is to manage and control foreign currency positions and maintain these positions within the parameters set by the Board of Directors. It is not the Bank's intention to take open positions on its own account but rather to maintain a neutral position in all currencies.

Foreign exchange exposure arises from normal banking activities, primarily from the receipt of deposits and the placement of funds. Future expected cash flows are hedged via the use of forward rate agreements in order to mitigate exposure due to movements in foreign currency rates.

The Bank has no significant structural currency exposures that are not covered by foreign exchange swap contracts. The table shown below gives details of the Bank's assets and liabilities as at 31 March 2019, based on the currencies in which they are denominated to identify the extent to which the foreign currency exposures of the Bank are matched.

Currency Exposures **As at 31 March 2019**	**Sterling** **£'000**	**US dollars** **£'000**	**Euro** **£'000**	**INR** **£'000**	**Total** **£'000**
Assets					
Cash and balances with banks	13,893	4,627	685	267	19,472
Deposits with banks	155,000	10,712	-	-	165,712
Investment Securities	126,873	218,430	-	-	345,303
Loans and advances to customers	484,224	426,307	133,881	-	1,044,412
Derivative financial instruments	692,951	-	-	1,290	694,241
Tangible Fixed Assets	3,846	-	-	-	3,846
Other Assets	9,340	-	-	-	9,340
Total Assets	**1,486,127**	**660,076**	**134,566**	**1,557**	**2,282,326**
Liabilities and shareholders' funds					
Deposits from banks	5,003	32,134	-	-	37,137
Deposit from customers	1,241,847	65,723	2,793	-	1,310,363
Derivative financial instruments	133	556,827	130,979	-	687,939
Other Liabilities	12,157	1,390	190	13	13,750
Subordinated debt liabilities	50,000	-	-	-	50,000
Capital Funds	175,000	-	-	-	175,000
Investment revaluation reserve	24	-	-	-	24
Retained earnings	8,113	-	-	-	8,113
Total equity and liabilities	**1,492,277**	**656,074**	**133,962**	**13**	**2,282,326**
Net Position	**(6,150)**	**4,002**	**604**	**1,544**	**-**

6.5 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Oversight of operational risk is undertaken by the Board Risk Committee, and ultimately the Board of Directors, who retain responsibility for operational risk. The Operational Risk Management Framework is developed by the Risk Management Department. Implementation of controls to address operational risk is part of each business line managers' day to day responsibility.

Operational risk is reported at each monthly Risk Management Committee meeting and a summary report is submitted to the Board Risk Committee and Board Committee on a quarterly basis. Operational risk capital is allocated by the Bank against its operational risks as detailed within the Bank's ICAAP.